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SUBJECT: PRIME MINISTER FRANCOIS FILLON'S VISIT TO U.S. MAY  
1 - 2

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Classified By: Ambassador Craig R. Stapleton for reasons 1.4 (b) and (d)  
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#### SUMMARY

1. (C) France's Prime Minister Francois Fillon will travel to the U.S. May 1 - 2. The current focus of Fillon's visit is the international economy -- and how it affects France's domestic reform program. He is set to meet with Federal Reserve Board Chairman Bernanke, Secretary of the Treasury Paulson and IMF Managing Director Dominique Strauss-Kahn. Fillon has also requested a meeting with President Bush at the White House on the afternoon of May 1. This Embassy believes that it is in our strong interest that the President meet with Fillon -- and that meetings be arranged with the Secretary and with Secretary Gates to discuss key issues on

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our political agenda with France, including NATO integration and Afghanistan.

2. (C) As the second most important political figure in France, Fillon's focus has been on implementing President Sarkozy's program of domestic reform. However, as Sarkozy's political standing has declined, Fillon's relative political weight has increased. He has even begun to address foreign policy issues -- as in his discordant public statement on MAP for Georgia and Ukraine on the eve of Bucharest, and in his spirited defense before the National Assembly of France's engagement in Afghanistan and its full re-integration into NATO, despite whatever personal reservations he may harbor. Given his emergence, it has become increasingly important to ensure that Fillon is fully committed to Sarkozy's repositioning of France alongside the U.S. We want Fillon to be a proactive partner, not a brake, as Sarkozy moves ahead to re-integrate France into NATO, and to cooperate yet more closely with the U.S. on our central policy priorities, including Afghanistan, Iran, and Iraq. A meeting with our top leadership offers the opportunity to bring home to Fillon our interest in cementing our new relationship with France, and to brief him fully on our approach to key foreign policy and defense issues and on our efforts on the environment and the international economy. In short, to make an even better friend of someone whose friendship and support we'll need in

the years ahead. In the event of such meetings, USG public comments on the visit will need to be scripted so as to protect Fillon's flanks, as he will not want to appear to be intruding on Sarkozy's political turf. End Summary

#### SARKOZY'S POLITICAL TROUBLES PLUS FRANCE'S ECONOMIC WOES PUT FILLON IN THE CATBIRD SEAT

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¶3. (C) Fillon arrives in the U.S. as a combination of factors have elevated him, as prime minister, from political partner to competing star. During the first eight months of the Sarkozy administration (May 2007 - January 2008), Fillon, and most of his government's ministers, were overshadowed -- to near invisibility -- by Sarkozy and his senior presidential advisors. All power and policy initiative was concentrated at the Elysee Palace. However, Sarkozy's sustained slide in personal popularity since last fall, from which he has not (yet) recovered, coincided with Fillon's dramatic rise in popularity and confidence ratings. He now outpaces the president by a large margin in every poll. Fillon's thoroughly unassuming, but centered and self-confident, personal style (along with his unquestioned command of the issues) has also worked to establish him as a reassuring, and popular, national political leader in his own right. Fillon, in the public eye, is now nearly Sarkozy's equal as both the public advocate and implementer of reform.

¶4. (C) In addition, Fillon's experience and expertise with social and economic issues, at a time of mounting international economic challenges, have also helped raise his leadership credibility and policy-making clout. For many years Fillon has been insisting that France cannot afford its inefficient system of high social protections. He has long supported programs aimed at slimming down government, lowering taxes, increasing output, and rewarding individual responsibility. By overwhelmingly electing Sarkozy president in May 2007, the French clearly endorsed such "liberal," and

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far-reaching, social and economic reform. Fillon is said to be very worried that, as global economic troubles impact on French growth, the French public will draw back from its support for difficult and thorough reform. In his meetings with Washington interlocutors, Fillon will be looking for ways to cooperate in managing global economic tensions that threaten to worsen France's economic difficulties, possibly undoing the chances of success of his and Sarkozy's ambitious plans for reform of France.

#### ECONOMIC ISSUES AT THE FORE

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¶5. (C) Fillon arrives in Washington after nine months of turbulent implementation of President Sarkozy's ambitious agenda for jump-starting the French economy through root and branch reform. In his public U.S. appearances Fillon will look to sell the new France8 and preview plans to boost long-term growth. But growing public concern about inflation and the loss of purchasing power -- due in part to escalating food and energy prices -- and the potential impact on France of a flagging international economy will be foremost on his mind. Slower-than-expected growth has pushed France's budget deficit to an estimated 2.7% of GDP -- perilously close to the 3% limit set by the Maastricht treaty. Although Finance Minister Lagarde has noted that the French real economy has fared relatively well in the current period of market turbulence, a lagging export sector and softening domestic demand has revived criticism of the ECB, as well as calls for potentially protectionist "industrial policy".

#### THE PRISM OF FRANCE'S EU PRESIDENCY

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¶6. (C) On economic issues Fillon will view his Washington trip through the prism of France's upcoming EU Presidency. Climate change and energy top the list of France's priorities. Political support for the EU's carbon cap and

trade system remains strong in France, though calls to protect industry from high-emissions foreign competition through a "carbon tax" on products levied at the EU's borders have also been heard. Energy security is important in French thinking, including a growing recognition of the need to engage producer countries in a more extensive dialogue, including those from the Caspian basin most subject to influence from Russia. Other economic issues likely to figure on the French agenda are reform of the Common Agricultural Policy (CAP), and reinforcing the transparency and stability of financial markets to meet the challenge of recent turbulence due to fallout from the U.S. subprime crisis. Fillon will likely ask for U.S. support for recent calls -- from IMF Chief Dominique Strauss-Kahn, among others -- that banks fully disclose the extent of the distressed assets they are carrying on their books.

¶17. (C) With France's EU presidency starting in July, the Fillon visit is an opportunity to harmonize the trans-Atlantic message on issues where our interests converge. Engagement with China, from IPR to investment and lending issues, to exchange rates, energy security, including the development of southern corridor routes to bring Caspian oil and gas to market (Fillon visited Kazakhstan in March), and efforts to fight corruption as part of broader global economic development efforts are among areas where consolidation of our efforts can reap rewards.

¶18. (C) France has indicated that it would like to see progress in the Transatlantic Economic Council (TEC) under its Presidency. We should stress the importance of eliminating the EU's unjustified restrictions on chemical treatment of poultry, as well as encourage EU reciprocity in recognizing US-GAAP accounting standards. France has also systematically impeded the use of Genetically Modified Organisms (GMOs) in agriculture, through the freeze it adopted in December and through new restrictions in legislation that is currently before the National Assembly. We should indicate that although we understand the depth of opposition to the use of GMOs in France, this is based on politics rather than science. The WTO has indicated that a ban is unacceptable under its rules, and we may well have no choice but to seek the compensation to which we are entitled.

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THE PRIME MINISTER, NOT THE FINANCE MINISTER

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¶19. (C) That Prime Minister Fillon, and not Finance Minister Lagarde, is making this trip to talk about the economy is noteworthy. At this time France's political class is increasingly focused on perceived market failure behind current financial, agricultural and macro-economic challenges. We should emphasize that well-functioning and open markets are critical to unwinding imbalances and meeting global challenges, including and especially in agriculture. Intervention could limit the flow of trade and investment, stifle innovation and risk exacerbating problems. Adjustments in financial markets are occurring and new regulation needs to be carefully thought through so as to enhance, rather than impede the process. A similar message on exchange rates would be helpful, as Fillon is under pressure "to do something" about the strong Euro, that is seen as severely cutting down on French exports.

NATO AND AFGHANISTAN ATOP THE TRANS-ATLANTIC  
POLITICAL AGENDA

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¶10. (C) The French media, the Paris policy elite and the general public have in recent months paid relatively scant attention to the administration's foreign policy initiatives, as opposed to domestic reforms and economic woes. However, Sarkozy's speech to the British parliament at the end of March, in which he spoke of new French deployments to Afghanistan and France's intention to reintegrate fully into NATO suddenly set off vocal objections to the

administration's orientation of French foreign and defense policy. The opposition hopes it has found a resonant issue here, as a recent opinion poll reported that 62 percent of French citizens believe that reinforcing troops in Afghanistan will not improve the situation there. The increased deployments to Afghanistan quickly became the lightning rod issue for this opposition and Fillon was designated as the principal spokesman to defend the President's actions.

¶11. (C) The Socialists, freshly combative from their victory in March's local elections, engineered two major April debates of the administration's foreign policies. The first, focused solely on Afghanistan, took place on April 1. This was followed on April 8 by a second effort, again citing Afghanistan but also including opposition to reintegrating France into NATO, and it included a "motion of censure" against the government. In each case, Fillon rose to the occasion, articulating the bases for the policy decisions and allaying concerns that France was "selling out" its proud independence. "France will still make its voice heard in NATO" Fillon argued, while also lambasting "the primal anti-Americanism that is one of our most reprehensible faults." As the President's party controls the parliament by a sizeable majority, the motion fell well short of the 289 votes needed to pass in the 577 seat National Assembly -- only 227 deputies voted in favor of it.

¶12. (C) At the Bucharest NATO summit, Sarkozy publicly announced "700" new troops, including a supplemental battalion for RC-East and France's assumption of the command of RC-Central. As Presidency and MOD officials have admitted to us, the official number of "700" reinforcements given by Sarkozy is a very conservative estimate of French reinforcements and only takes account of the additional battalion for RC-East. Sources at the MOD and Elysee have confirmed that, in addition, a reinforcement of some 300-350 troops will be sent to bolster the French presence in Kabul, in conjunction with its assumption of the command of RC-capital this summer. Finally, deployment of Special Forces may also still be on the table, but with a galvanized opposition, Sarkozy and Fillon likely did not want to jeopardize the domestic reform agenda by highlighting the more robust deployments. That said, France still offered the largest reinforcement of troops by any NATO country for the ISAF mission in Afghanistan.

DISCORDANT NOTE ON GEORGIA/UKRAINE...

¶13. (C) In his April 3 defense before Parliament of Sarkozy's

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initiatives on Afghanistan and NATO, Fillon rose to the occasion. The only stumble in Fillon's recent public performances was an unfortunate statement he made on French radio the day before the Bucharest NATO summit in which he stated, "We are opposed to the entrance of Georgia and Ukraine into NATO because we don't believe this is the answer to the balance of power in Europe, and between Europe and Russia," adding, "we want to have a dialogue with Russia on this subject." These remarks unfortunately lacked the nuance of the actual GOF position, which had been conveyed to us, at all levels and in all the ministries, which is that Russia has no veto on NATO decisions while France does not now support MAP for Georgia or Ukraine, the French still wanted to explore creative ways to send a positive signal to reinforce the two countries' transitions to more democratic governance. They are convinced that the statement agreed to by NATO leaders at Bucharest achieved that end. In the end, his own staff expressed surprise that Fillon had publicly addressed the issue, and Elysee officials were dismayed by his mis-statement of France's policy on MAP for Ukraine and Georgia, noting that his words did not reflect the position of President Sarkozy.

...REVEALING A LACK OF COMMITMENT ON NATO REINTEGRATION?

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¶14. (C) Foreign Ministry Political Director Gerard Araud, notorious for his plain speaking (protect nonetheless), told the Ambassador on April 20 that Fillon's statement on Georgia and Ukraine is in fact indicative of a broader discomfort with the direction Sarkozy has taken on NATO. Araud believes that Fillon, like many or most of the French, cling to the self-image of an independent France, as symbolized by its singular position in NATO. Sarkozy, who is motivated by his deep affection and admiration for the U.S., believes that France's influence is magnified if it ceases to maintain an artificial distance from the U.S. as it addresses common threats and challenges. By Araud's telling, Fillon and the rest of the governing, neo-Gaullist UMP party have not yet fully made this shift. Fillon will not oppose Sarkozy on his grand bargain -- a full return to NATO in return for a U.S. embrace of an enhanced EU role in European defense. However, with France's domestic reform as his top priority, he will be among those advising Sarkozy against political risk-taking in pursuit of an objective which is not for him a personal priority.

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